

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2011-24-S**

IN RE: )  
 )  
Application of Palmetto Utilities, )  
Inc. for adjustment of rates and )  
charges for, and modification to )  
certain terms and conditions related to )  
the provision of sewer service. )  
\_\_\_\_\_ )

**PREFILED TESTIMONY OF EDWARD R. WALLACE SR., CPA,**  
**ON BEHALF OF PALMETTO UTILITIES, INC.**

1     **Q.     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2     A.     My name is Edward R. Wallace Sr. My principal place of business is 10913 Metronome  
3           Drive, Houston, Texas, 77043.

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5     **Q.     WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6     A.     I am employed as the President of Ni America Capital Management, LLC (Ni America)  
7           and all of its subsidiaries, which includes the applicant in this proceeding, Palmetto  
8           Utilities, Inc.

1     **Q.     WHAT IS YOUR EDUCATIONAL BACKGROUND AND YOUR TRAINING**  
2     **AND WORK EXPERIENCE?**

3     A.     I graduated, *cum laude*, from Texas A&M University with a Bachelor of Business. I am a  
4     certified public accountant licensed to practice in the State of Texas. I have applied to  
5     the South Carolina Board of Accountancy for reciprocity. I have worked with or in the  
6     utility industry my entire career and have over ten years worth of experience in water and  
7     wastewater. I was first employed by Coopers & Lybrand in 1978 where I ultimately  
8     became a partner. During my time with Coopers & Lybrand, I served on its behalf at the  
9     Financial Accounting Standards Board from 1986 until 1988 working on projects in the  
10    leasing and utility industries. From 1991 until 1995, I worked in investment banking  
11    structuring transactions for both private and public companies in the leasing and utility  
12    industries. During those years, I was either a partner of various regional private firms or  
13    employed as a Director by CS First Boston. In 1996, I founded AquaSource and led a  
14    team of individuals responsible for completing over 150 transactions in just over two  
15    years for clients involved in the water/wastewater industry and the propane gas industry.  
16    During that time the business grew from 16 employees with no revenues to over 1,100  
17    employees and almost \$200 million in revenue. Beginning in April 2007, I co-founded Ni  
18    America and became President of the water and wastewater utilities that are its  
19    subsidiaries.

1       **Q.     WHAT ARE YOUR JOB RESPONSIBILITIES IN YOUR CURRENT POSITION?**

2       A.     As President of Ni America, I am ultimately responsible for all acquisitions and day-to-  
3             day operations of five utility subsidiaries serving over 20,000 customers in three states.  
4             As President of Palmetto Utilities specifically, my responsibilities include the day-to-day  
5             oversight of Company's management responsible for wastewater treatment operations,  
6             customer billing and relations, and supervision of environmental compliance.

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8       **Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

9       A.     The purpose of my testimony is to support the Palmetto Utilities application for rate relief  
10            and provide the Commission with an overview of (1) Ni America and its relationship  
11            with Palmetto Utilities, Inc., (2) the allocation of corporate overhead to Palmetto  
12            Utilities, and (3) the transition to and operations of Palmetto Utilities provided by a third  
13            party operator.

14  
15       **Q.     WHAT IS NI AMERICA AND WHAT RELATIONSHIP DOES IT HAVE TO**  
16       **THE MANAGEMENT OF PALMETTO UTILITIES, INC.?**

17       A.     Ni America was founded in April 2007 to consolidate small to midsized water and  
18             wastewater companies. Ni America's management consists of twelve dedicated  
19             employees with over one hundred combined years of water and wastewater experience.  
20             The members of the management team of Ni America pride themselves on having the  
21             reputation and dedication to bring undercapitalized utility systems into regulatory and

1 environmental compliance and striving to achieve best industry practices in customer  
2 service and operations. Ni America is proud to have formed a relationship with Stan  
3 Jones and Palmetto Utilities, Inc. As you are aware, Mr. Jones has transformed a local  
4 wastewater utility into a substantial regional facility currently serving over 16,000  
5 customer equivalents. Different from most of the other Ni America subsidiaries, Palmetto  
6 Utilities, Inc. has a stellar reputation in operational efficiency, customer service,  
7 environmental excellence and regulatory compliance. We are committed to continue Mr.  
8 Jones' exemplary performance at Palmetto Utilities and strive to improve on the policies  
9 and procedures he established in its operation with the goal of becoming the role model  
10 of other South Carolina privately owned regulated water and wastewater utilities.

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12  
13 **Q. WHAT EXACTLY IS NI AMERICA'S LEGAL RELATIONSHIP TO**  
14 **PALMETTO UTILITIES, INC?**

15 A. As the Commission is aware from the 2008 proceeding in which it approved the transfer  
16 of Palmetto Utilities' stock to Wateree Utilities Holding, Inc., the principal shareholder of  
17 Palmetto Utilities, Inc. had been the Estate of Mr. C. Heath Manning, Sr., who died in the  
18 spring of that year. The heirs of the Manning estate decided that they wanted to divest  
19 themselves of their majority interest in Wateree Utilities Holding, Inc and in January of  
20 2010, Ni America acquired their interest. Wateree Utilities Holding, Inc. was thereafter  
21 re-named Ni South Carolina Utilities, Inc. Fortunately for Ni America, Mr. Jones agreed  
22 to remain at Palmetto and continues to retain an indirect equity interest in it.

1  
2 **Q. YOU MENTIONED THE NI AMERICA OVERHEAD ALLOCATION PROCESS;**  
3 **WOULD YOU PLEASE EXPLAIN THAT TO THE COMMISSION?**

4 A. Yes. For regulatory purposes, Ni America allocates overhead to the utility systems it  
5 owns in the three states where we do business. These allocations are made on an  
6 equivalent residential customer unit or "ERC" system which, in South Carolina, employs  
7 single family equivalents as determined by the South Carolina Department of Health and  
8 Environmental Control, or "DHEC," regulations referenced in Palmetto's rate schedule.  
9 These utilities are included in a calculation whereby Ni America's overhead is allocated  
10 on a monthly basis to each utility on a pro-rata basis of their individual equivalent  
11 residential customer units as compared to the total residential equivalent units of Ni  
12 America.

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14  
15 **Q. YOU ALSO MENTIONED THAT PALMETTO UTILITIES' OPERATIONS**  
16 **HAVE BEEN TRANSFERRED TO A THIRD PARTY OPERATOR; WOULD**  
17 **YOU PLEASE EXPLAIN WHY THIS WAS DONE AND HOW IT BENEFITS**  
18 **CUSTOMERS?**

19 A. Yes. The operations and billings functions previously performed by Palmetto Utilities  
20 personnel were transferred to Utility Group of South Carolina, an independent third party  
21 operator, in January of 2010. The principals of Utility Group of South Carolina own  
22 another utility operation service entity that Ni America has successfully utilized with our

1 Florida utilities. We are therefore familiar with their services and capabilities. As I  
2 mentioned earlier, and as Mr. Jones's testimony describes in greater detail, Palmetto  
3 Utilities has grown from a local residential sewer utility to a regional wastewater system  
4 that rivals some small cities. Policies and procedures which are appropriate for a local  
5 utility, even when they are exemplary as was the case with Palmetto's, must evolve into  
6 more sophisticated processes to appropriately service an ever expanding customer base.  
7 One of Ni America's goals is to see that every one of our subsidiary water and  
8 wastewater utilities is operated in a manner as close to industry best performance  
9 standards as is reasonably practical for the size of the system and the related cost to the  
10 customers. We find that using an independent third party operator like Utility Group of  
11 South Carolina allows us to leverage economies of scale to provide our customers with  
12 services at a more effective cost. In the case of Palmetto Utilities, Inc., we decided to  
13 allow it to continue handling its operations for a period of at least one year given its  
14 history of excellent operational performance. During that year, we were able to identify  
15 some areas where operational improvements could be made and will strive to make those  
16 improvements on a cost effective basis going forward using Utility Group of South  
17 Carolina. For the foreseeable future, we believe using this independent third party  
18 operator, which has more resources at its disposal, is the most efficient way to make  
19 those improvements.

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21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

22 **A.** Yes, it does.